

Message Text

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ACTION ARA-10

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FM AMEMBASSY QUITO
TO SECSTATE WASHDC 3268
INFO AMCONSUL GUAYAQUIL

C O N F I D E N T I A L QUITO 1139

E.O. 11652: GDS
TAGS: BDIS, EINV, ENRG, EC
SUBJECT: NORTHWEST SEEMS TO BE MOVING CLOSE TO AN AGREEMENT WITH
OKC AND IMPROVING RELATIONS WITH GOE

1. BEGIN SUMMARY: NORTHWEST OFFICERS TOLD AMBASSADOR THAT NORTHWEST MAY BE ABLE TO REACH AN AGREEMENT WITH OKC PRESIDENT BOX REGARDING OKC'S PARTICIPATION IN THE DEVELOPMENT OF THE GULF OF GUAYAQUIL. THEY SAID BOX IS NOT INTERESTED IN PURSUING ADA'S CLAIM FOR COMPENSATION AGAINST THE GOE. FROM THEIR COMMENTS IT APPEARS NORTHWEST/GOE RELATIONS HAVE IMPROVED. ACTING CEPE MANAGER GUILLERMO BIXBY ASSURED NORTHWEST THAT IN TWO MONTHS CEPE WOULD HAVE THE REQUISITE DOCUMENTS SETTING UP THE LONG-PLANNED MIXED COMPANIES WHICH NORTHWEST DEEMS TO BE PREREQUISITES FOR STARTING THE DRILLING OPERATIONS. END SUMMARY.

2. NORTHWEST VICE PRESIDENT THOMAS DI ZEREGA AND LOCAL PROJECT MANAGER GLENN NELLS CALLED ON AMBASSADOR ON FEBRUARY 17 AND REPORTED ON DETAILS OF NORTHWEST'S NEGOTIATIONS WITH THE GOE AND WITH OKC PRESIDENT CLOYCE BOX.

3. DI ZEREGA HAD MET EARLIER ON FEBRUARY 17 WITH NEWLY-APPOINTED MINISTER OF NATURAL RESOURCES SEMBLANTES, ACTING
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CEPE MANAGER GUILLERMO BIXBY, AND OTHER GOE OFFICIALS. DI ZEREGA SAID "AT THIS PARTICULAR MOMENT" RELATIONS BETWEEN THE GOE AND NORTHWEST "LOOK GOOD." HE EXPLAINED THAT, WHILE NORTHWEST HAS AN ASSOCIATION CONTRACT WITH CEPE FOR EXPLORATION AND PRODUCTION OF THE GAS, THE DISPOSAL OF THE GAS (LOCAL SALES, CONSTRUCTION OF THE AMMONIA PLANT, ETC.) WILL BE HANDLED THROUGH AN ARRAY OF

MIXED COMPANIES IN WHICH CEPE HAS 51 PERCENT CONTROL (WITH AN OPTION TO GO TO 61 PERCENT). HE SAID NORTHWEST HAS REFUSED TO GO AHEAD WITH ITS DRILLING PROGRAM WITHOUT SOME PROVISION FOR DISPOSAL OF THE GAS. BUT CEPE HAS NOT YET COMPLETED THE DOCUMENTS SETTING UP THESE MIXED COMPANIES. ACTING CEPE MANAGER BIXBY TOLD THE NORTHWEST REPRESENTATIVES THAT CEPE COULD COMPLETE THIS WORK IN ABOUT TWO MONTHS. DI ZEREGA TOLD THE AMBASSADOR THAT NORTHWEST WOULD PROCEED "IN A TIMELY FASHION" ONCE THE MIXED COMPANIES ARE UNDER WAY. HE SAID THAT THE DELAY UNTIL NOW HAS BEEN CAUSED ENTIRELY BY CEPE'S INEPTITUDE IN ARRANGING THE ESTABLISHMENT OF THE MIXED COMPANIES.

4. DI ZEREGA ADMITTED THAT THE ADA CLAIM HAD MADE IT DIFFICULT FOR NORTHWEST TO OBTAIN FINANCING. HE SAID, HOWEVER, THAT NORTHWEST NOW HAD SUBSTANTIAL PRELIMINARY COMMITMENTS FROM A VARIETY OF EUROPEAN SOURCES BUT ADDED THAT NORTHWEST WOULD STILL BE INTERESTED IN SECURING OPIC FINANCING AND INSURANCE.

5. DI ZEREGA ALSO TOLD THE AMBASSADOR THAT HE HAS HAD SEVERAL CONVERSATIONS WITH OKC PRESIDENT CLOYCE BOX REGARDING BOX'S PURCHASE OF ADA'S SHARES AND HIS INTEREST IN PARTICIPATING IN NORTHWEST'S DEVELOPMENT OF THE GULF OF GUAYAQUIL. BOX TOLD DI ZEREGA THAT HE HAD BOUGHT OUT ADA BECAUSE ADA HAD WON A RECENT COURT JUDGEMENT AGAINST OKC RELATING TO OKC'S PREVIOUS PARTICIPATION IN THE ADA CONSORTIUM. BOX ALSO TOLD ADA HE HAD NO INTENTION OF CONFIDENTIAL

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PURSUING ADA'S CLAIM AGAINST THE GOE AND HAD SO REPORTED TO THE DEPARTMENT OF THE TREASURY; RATHER, BOX INTENDS TO TRY TO USE THE CLAIM AS AN OFFSET AGAINST CERTAIN GOE TAXES (SEE 6, BELOW).

6. DI ZEREGA REPORTED THAT NORTHWEST AND OKC HAVE AGREED IN PRINCIPLE THAT BOX WILL PURCHASE A 15 PERCENT SHARE IN NORTHWEST'S PROJECT IN THE GULF OF GUAYAQUIL. (BOX HAD EARLIER DEMANDED A 15 PERCENT CLEAR-OVERRIDE FROM THE PROJECT.) THE REMAINING POINT OF DISPUTE IS BOX'S DEMAND THAT NORTHWEST PURCHASE ADA'S FORMER EQUIPMENT FOR \$3 MILLION. DI ZEREGA SAID THAT HE WAS WILLING TO PURCHASE "WHATEVER EQUIPMENT NORTHWEST CAN USE." HE SPECULATED THAT THIS AMOUNT WOULD NOT BE VERY GREAT DUE TO THE DETERIORATED CONDITION OF THE INVENTORY.

7. BOX DID, HOWEVER, TELL DI ZEREGA THAT HE WOULD BE WILLING TO USE ADA'S \$26 MILLION CLAIM TO OFFSET GOE TAXES AND ACCELERATE THE PROJECT'S DEPRECIATION. BOX

SAID HE HAD THE PERMISSION OF GOE OFFICIALS (UNNAMED)
TO OFFER NORTHWEST THIS PROPOSAL. DI ZEREGA TOLD BOX
THAT NORTHWEST WAS NOT INTERESTED IN SUCH A COMPLICATED
AND UNCERTAIN ARRANGEMENT. DI ZEREGA SAID HE DID NOT
KNOW IF BOX PLANNED TO USE SUCH A DEVICE FOR ACCELERATING
DEPRECIATION ON HIS OWN SHARE IN THE GULF OF GUAYAQUIL
PROJECT.

8. COMMENT: DEPARTMENT MAY WISH TO QUERY OKC'S ATTORNEY
ABOUT OKC'S PLAN FOR INDIRECT RECOVERY OF ADA'S CLAIM
THROUGH THE DEPRECIATION DEVICE.
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